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Testimony on HB 4001

Good morning to you, Chairman Tedder, and to the other members of the Tax Policy Committee. My name is Charles Ballard. I am a Professor in the Department of Economics at Michigan State University. However, I do not come here today as an official spokesperson, but rather in my role as a citizen who has taken a keen interest in the Michigan economy over the years, having edited or written three books about the Michigan economy in the last 14 years.

It is very unfortunate that a proposal to roll back the income tax in Michigan is being considered at this time. It is a time when many of our roads and bridges are crumbling. It is a time when the sinkhole in Fraser represents the tip of the iceberg of the infrastructure problems that lie ahead. It is a time when our counties, townships, cities, and villages face tremendous financial strains, due largely to the restrictions on their own sources of revenue, and to the fact that the state government has chosen to reduce revenue sharing. It is a time when drastic reductions in state funding for higher education have led to very large increases in tuition.

All of these problems have resulted largely from an obsession with tax cuts, combined with a fiscal system that does a bad job of matching revenues with needs.

As a percentage of our economy, tax revenues in Michigan have been falling for decades. When we add all of the revenue reductions together, they are of staggering size. In the 1970s, state and local taxes in Michigan amounted to about 13% of personal income. In recent years, they have been in the vicinity of 10% of personal income. The difference is the equivalent of more than \$10 billion per year. In other words, if we had decided not to let our revenues erode, we would have had enough money to have first-rate roads, water systems, and sewers. We would have had enough money for every K-12 school building in Michigan to be up to date. We would have had enough money to keep tuition at our universities at much lower levels.

Not long ago, I had to have both front rims on my Chevy Malibu replaced, because of driving on roads that had been allowed to deteriorate. When that repair was done, I did not jump for joy because of my low taxes. I suppose that our crumbling roads are good for body-repair shops and chiropractors, but they are a bad deal for the rest of us. Effectively, when I had to get my car repaired, I paid the "pothole tax". I would rather pay real taxes and have good roads, instead of paying a hidden tax like the "pothole tax".

Some argue that if we cut taxes enough, it will generate a spasm of economic growth. The evidence in favor of that hypothesis is extremely slim. Low taxes are well down the list of

factors that attract businesses. Labor-force availability and quality are substantially more important. If your business can't find workers with the skills to do the work you need done, then you won't have a successful business, regardless of the level of taxes.

Thus if we roll back our income tax, we will be even less able to meet critical needs, but we are unlikely to get much of a boost in terms of economic growth. But those are not the only reasons to oppose this proposal. Equally important is the negative effect that an income-tax rollback will have on the distribution of income.

In the last 40 years, the distribution of income in the United States has become dramatically more unequal. The trend in Michigan is very similar to the national trend—the bottom half of households have made little progress, if any, while those at the top have done very well indeed. The proposed income-tax rollback would continue that trend. The neediest households would get nothing, the average household would get the equivalent of dinner and a movie, and the most affluent would get a tax cut of several thousand dollars per year. In my view, this would take us in precisely the wrong direction.

If the proposed roll-back of the income tax were enacted, my wife and I would get a tax cut. Because she and I are both lucky enough to have good-paying jobs, we would get a bigger tax break than most Michigan residents would get. Then, you may ask, why am I against this proposal, if it would leave more cash in my pocket? The reason, beyond the reasons I have already outlined, is that I am a member of a community. I am not an island unto myself. Although I am not here to proselytize, I do firmly believe that if you have done it unto one of the *least* of my brethren, you have done it unto me. I believe in the Biblical admonitions to feed the hungry, clothe the naked, care for the sick, and welcome the stranger. At this late date, when our public infrastructure is crumbling, a tax break that gives the overwhelming majority of its benefits to the affluent is stridently contrary to my values.

I urge you to reject this proposal. Thank you for your consideration.